in the low rate of interest cost people many times that rate of interest in the depreciation of their securities and the inflation of prices generally.

Prices generally depend upon the law of supply and demand. Money is no exception. High prices lessen the demand and tend to bring about a stable equilibrium. It is always in the interests of commercial communities to charge fair rates for money as it is to charge fair rates for any other article or service. Had our government paid fair rates they would have kept their securities at or about par, kept them in the hands of the public and made it much easier to overcome high prices which are the result of inflation.

Our government spent over a billion dollars purchasing its own securities in the market, under the mistaken idea that they were sustaining the prices of the same. The prices, nevertheless, continued to recede. Had they not adopted this policy, the interest being certificates in the banks would be lessened by that amount, and our commercial and financial interests would be in that much better position.

We can have no deflation until this floating debt of the government carried by the banks in the form of interest-bearing certificates, which now exceeds three billions of dollars, is retired. The banks will then have sufficient funds to supply the commercial demands of the business community, and prices will go down from their present dizzy height to a more normal level.

I cordially endorse what Professor Cassel says about the reduction of state expenditures. Until the incomes of the governments recently at war equal their expenditures; in other words, so long as they go on increasing their debt, deflation is impossible and the uncertainty of the value of their currency is intensified.

This is a question which must be settled by each country itself. England's trade balance, according to Lloyd George, is now favorable and her income will, for the present fiscal year, equal her expenditures. England is in a position to "come back" and resume her position as one of the leading commercial nations of the world. The continental countries are by no means in as favorable a condition.

COMMENTS ON PROFESSOR CASSEL'S ARTICLE

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I AM entirely in agreement with Professor Cassel's explanation of the general rise of prices and of what is called the "dislocation of the exchanges." I applaud his exposure of the folly of supposing that a hoard of gold which no one may draw upon is of some immediate use in supporting the value of a paper currency, and I welcome his support for the doctrine which I have (without much success) been trying to teach the public, that the high profits, supposed to be due to some witchcraft called "profiteering," are simply the result of a depreciating currency which means a rise of prices between the time of buying and the time of selling. As to reme-

dies also I am in agreement with him. I am only inclined to add a little without taking away anything.

First, I think it should be clearly understood that a "discount policy" is not likely to work, unless those who have to put it in force recognize that the purpose of it is to reduce the currency, and are themselves in sympathy with this purpose. I do not believe, for example, that the Bank of England could bring the pound up to its proper value of 113 grains of fine gold or $4.86 by putting the bank rate up, unless the other banks and the government saw that what was wanted was to reduce the outstanding amount of bank notes and currency (usually called "treasury") notes, and were really desirous that the reduction should take place. Consequently, I put more faith in direct action for reducing currency. In England, at any rate, it is perfectly easy for the government to reduce the bank-note currency by a very large amount in a very short time and without any expense, but with considerable profit. Gold equal to a hundred and thirteen million sovereigns is held by the Bank of England against its notes. The notes are convertible, but if a private person presumes to convert them and then to export or melt the gold, the government can and does prosecute him; no one, however, can prosecute the government itself for drawing out and exporting as much gold as it can present notes for. The British Government, therefore, unlike all other institutions and persons, is able to procure with £1 what will pay a debt of nearly $4.86 in America, since it alone is able not only to get five sovereigns with a £5 Bank of England note but also to send the sovereigns abroad to be sold for what they will fetch. If, as is probable, it shrinks from thus affronting the worshippers of "gold backing," it can still reduce the currency notes by the simple process of getting some of them in by taxes, or by borrowing at interest, and cancelling them. Of course, any of these methods will tend to cause an immediate rise in the money market rate of interest, but I do not think a rise so caused would excite nearly so much opposition as what would be called an "artificial" rise brought about for the purpose of reducing the currency.

Secondly, I think it is necessary to insist strongly on the fact that each country acting alone, however indebted and poverty stricken it may be, has the power of bringing its money—its unit of account—into some fixed relation with gold and keeping it there. It may be impossible, or if not impossible very undesirable, for Germany to bring the mark up to the value of 24 cents, but it is quite possible for Germany alone to fix the mark at 1 cent or some rather higher figure, and very desirable that it should do so. To cure the violent variations in exchange which are the real evil of the "dislocation," what is required is for each of the countries not at present on a gold standard to come back to that standard, no matter, so far as civilization in general is concerned, what particular rate each of them may, having regard to its own circumstances, find convenient. This is not a matter for international action, and nothing but harm is done by the perpetual suggestion that the United States or all the countries with the least depreciated currencies are to take steps to reha-

bilitate the more depreciated currencies of other countries.

It is only after civilization has been restored by the reëstablishment of the common monetary unit, *i.e.*, an ounce of pure gold, which prevailed before the war throughout all the world except a portion of the east where silver was the unit and a few disordered localities in the west, that international action is admissible.

There is no need for the restoration of gold as a standard to cause a great additional demand for it. There is no reason for giving up the circulation of paper and taking again to pockets and tills full of heavy metal. We, in England, do not want sovereigns and half sovereigns again; we should have discarded them long ago, like the Scotch and Irish and the inhabitants of most of the white colonies, if our banks' convenience had not caused our legislature to persist in the prohibition of notes under £5. The stocks of gold in the banks and these hoarded away for the present by individuals are together quite sufficient to provide the reserves necessary for keeping the different paper currencies in their proper relation to each other and to gold. But the infirmities of reasoning power in the human race and the backward state of elementary instruction in economics are such that it is possible, as Professor Cassel fears, that the restoration of the gold standard may be accompanied by a large demand for gold for currencies and reserves, even if it takes place as the considered policy of governments. There is another possibility—that gold may be restored as a standard by the people, independently of their governments. Tired of the perpetual depreciation of paper money, people have often refused to deal in it any more, and have taken, in spite of their government, to buying and selling in metal instead of notes; if this should happen, as we are told it has already happened in Mexico, there would necessarily be a large demand for gold for currency.

It may be, therefore, that the restoration of the gold standard, in the absence of corrective measures, may involve a great and inconvenient drop in prices when reckoned in that standard.

On the other hand, nothing of this kind may occur. Professor Fisher may be right in believing that the demand for and the supply of gold will be in such relation that prices in gold will not fall, but will go on rising as they went on rising before the war, and that to an inconvenient extent.

If pressed for a guess, I should be inclined to hazard that the immediate result of the restoration will be a fall of prices, but that the old rise would soon be resumed. The thing that is most unlikely is that gold would be very stable. When my grandmother was told by one of her sons that he intended to "trust in Providence," she retorted, "I never saw any good come of that!" If mankind wants a stable standard, they must bestir themselves to make one, and not trust that Providence will arrange that gold or any other particular metal shall always buy the same quantity of goods in general.